



Regulatory Circular RG10-99

To: CBSX Market-Makers  
From: Trading Operations & Department of Regulated Entities  
Date: September 22, 2010  
Re: Proposed Amendments to CBSX RMM, LMM, & DPM Obligations

---

On September 17, 2010, CBSX submitted a proposed rule change to adopt enhanced minimum quotation requirements for CBSX Remote Market-Makers, DPMs, and LMMs (collectively “CBSX Market-Makers”). The rule change is being proposed in consultation with the other U.S. stock markets and SEC staff in response to the market disruption of May 6. This circular is being issued to advise CBSX Market-Makers of the additional quotation obligations that will be imposed once the rule change is approved by the SEC.

Under the proposal, the CBSX Rules will be amended to require CBSX Market-Makers for each stock in which they are registered to continuously maintain a two-sided quotation within a designated percentage of the National Best Bid and National Best Offer as appropriate during CBSX Regular Trading Hours after the primary listing market has disseminated an opening quote in the stock on a given trading day.<sup>1</sup> These enhanced market maker quotation obligations are intended to eliminate trade executions against market maker placeholder quotations traditionally priced far away from the inside market, commonly known as “stub quotes.” They are also intended to augment and work in relation to the single stock pause standards already in place on a pilot basis for stocks in the S&P 500, the Russell 1000 and certain exchange-trade products.

Under the proposal, CBSX Market-Makers will be required to enter and maintain quotes priced at no more than a certain percentage away from the national inside bid and offer. Permissible quotes are determined by the individual character of the security, the time of day in which the quote is entered, and other factors which are summarized below:

- For issues subject to an individual stock trading trigger pause, a permissible quote is determined by first looking at the applicable stock trading pause trigger percentage of the security and then reducing that number by 2%. Since currently the stock pause trigger percentage across all exchanges is 10%, a CBSX Market-Maker’s quote in such a security may not be more than 8% away from the national best bid or best offer as appropriate. Once a compliant quote is entered, it may rest without adjustment until such time as it moves to within ½ of 1% of the applicable trigger pause percentage (i.e., currently 9.5%) whereupon the CBSX Market-Maker must immediately move its quote back to at least the permissible default level of 8% away from the national best bid or best offer. During times in which a trigger pause percentage is not applicable (e.g., before 8:45 a.m. and after 2:35 p.m. Chicago Time), a market maker must maintain a quote no further than 20% away from the inside (i.e.,

---

<sup>1</sup> A CBSX Remote Market-Maker would be obligated to provide continuous quotes only when the CBSX Remote Market-Maker is quoting in a particular security during CBSX Regular Trading Hours after the primary listing market has disseminated an opening quote. A CBSX DPM or CBSX LMM would be obligated to provide continuous quotes during the CBSX Regular Trading Hours after the primary listing market has disseminated an opening quote.

it may rest without adjustment until it reaches 21.5%). In the absence of national best or best offer, the above calculations will remain the same, but will use the national last sale instead of the absent bid or offer.

- For securities not subject to any individual stock pause trigger, the proposal will assume a hypothetical 32% trigger pause, apply a 2% reduction, and require CBSX Market-Makers in those issues to maintain quotes no more than 30% away from the national best and national best offer. Like securities subject to stock trading pauses, once a compliant quote is entered, it may rest without adjustment until such time as it moves to within  $\frac{1}{2}$  of 1% of its applicable trigger pause percentage (31.5%) whereupon the CBSX Market-Maker must immediately move its quote back to at least the permissible default level of 30%. These requirements shall apply to Regulation NMS stocks during CBSX Regular Trading Hours after the primary listing market has disseminated an opening quote in the stock for the given trading day.

Nothing in the above will preclude a CBSX Market-Maker from voluntarily quoting at price levels that are closer to the national best bid and best offer than required under the proposal.

The proposed rule change is currently pending approval by the SEC. For additional information, please refer to rule filing SR-CBOE-2010-087, located at [www.cboe.org/legal](http://www.cboe.org/legal). Further questions may be directed to David Reed at 312-786-8857 or the Department of Regulated Entities at 312-786-7315.